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SUBJECT: Vietnam Airlines Gets Serious About Flights to USA

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11. (SBU) Summary: Anticipating a surge in U.S. business and tourist travelers to Vietnam, Vietnam Airlines (VNA) intends to begin flights to the United States in early 2008. It will submit a plan for the operation to the Prime Minister in the beginning of January, Vietnam Airlines officials told Econoff. VNA officials visited the United States in November to discuss the route with U.S. airport officials. Though the route will lose a projected USD 30 to 40 million per year for several years, the plan aims to position the airline to take advantage of the country's improving international image and business climate and increased tourist traffic. VNA plans to spend USD 3 billion by 2020 to boost its fleet of owned and leased aircraft from the current 38 to 100 airplanes. An upcoming TDA project may help VNA's plans by helping the Civil Aviation Authority of Vietnam (CAAV) reach the International Civil Aviation Organization (ICAO) safety standards, as required by the U.S. Federal Aviation Administration (FAA). End summary.

12. (SBU) Anticipating larger tourist and business traffic to Vietnam, Vietnam Airlines intends to begin flights to the United States in the first half of 2008 and will submit a plan for the operation to the Prime Minister in the beginning of January, Vietnam Airlines officials told Econoff. The route is allowed under the terms of the United States-Vietnam Air Transport Agreement but the state-owned air carrier has not taken advantage of it because of its lack of air safety certification from the FAA. A new U.S. Trade Development Agency project expected to begin in early 2007, however, will boost CAAV's air safety standards and allow flights to start by that time if no delays occur, CAAV officials stated.

13. (SBU) The decision on the route follows a visit in November by VNA officials to the United States to discuss the route with airport officials. The airline has chosen Los Angeles International Airport (LAX) as its preferred destination, with flights running five times per week from Ho Chi Minh City and re-fuelling in Anchorage, Alaska, said Nguyen Manh Quan, General Manager of Routes in VNA's Marketing Planning Division. No flight slots are currently available at LAX, he said, but VNA is now negotiating to obtain a midnight flight slot at the LAX terminal operated by American Airlines (AA). The airline

aims to sign a code-sharing agreement for these flights, enhancing a code-share agreement VNA already has for VNA-operated flights from Ho Chi Minh and Hanoi to Paris, Frankfurt, Tokyo and Osaka. Beyond those destinations, VNA and AA have a code-sharing agreement for AA-operated flights to Dallas/Ft. Worth and five U.S. cities beyond. Nguyen said that VNA had been considering flights to San Francisco, but the destination is not a hub for AA.

14. (SBU) The plan is part of a VNA strategy to take advantage of an expected boom in Vietnam tourism, trade and investment stemming from the country's improving international image and business climate in the wake of WTO entry. "There is incredible potential for Vietnam to do better" in tourism, said John Koldowski, the Managing Director Strategic Intelligence Center of the Pacific Asia Travel Association at a December meeting of the Vietnam Business Forum. The Vietnam National Administration of Tourism has stated in press reports that it expects the number of U.S. travelers to Vietnam to double in 2007, up from 352,000 for the first 11 months of 2006. For its part, Vietnam Airlines expects its own passenger turnover to increase by roughly 15 percent each year for the foreseeable future, though it carried only 7.5 million passengers in 2006, up 10 percent over 2005. The number was lower than expected because the APEC Summit caused a shortage of hotel rooms, particularly in October and November, Nguyen explained.

15. (SBU) The route is also part of VNA's development agenda requiring the airline to spend \$3 billion by 2020 to boost its fleet of owned and leased aircraft from the current 38 to 59 by 2010 and 100 by 2020. That latter number would put VNA roughly on par with other regional carriers such as Thai Airways, which currently operates 91. There are no purchase plans linked to the new route, as VNA would likely use a leased Boeing 777-200 for the U.S. flight, Nguyen said. VNA has, however, received the approval from Prime Minister Dung this fall to purchase 10 Boeing 787-9s or 787-10s, though at the same time he gave VNA the approval to consider rival Airbus A350s. Boeing officials in Vietnam note that Airbus is

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reportedly competing fiercely by offering to slash prices. These aircraft would be used primarily for domestic routes. Boeing was close to receiving the purchase order for the planes prior to the APEC summit. According to the suspicions of industry experts, however, at least one of the reasons the deal was not concluded was GVN consternation over the U.S. Congress's failure to pass Permanent Normal Trade Relations for Vietnam. Boeing is still in negotiations on the deal.

16. (SBU) Nguyen noted the route will not make money at first. In fact, VNA projects it will lose initially between USD 30 million and USD 40 million a year and will become profitable only after five years of operation. The airline wants the flights, however, because of the long-term potential. The route will boost VNA's regional stature by attracting customers throughout Southeast Asia who need to fly to the United States, Nguyen said. The airline is also interested in the route "for prestige," he said. Vietnam's political leaders want to use the airline to enhance Vietnam's international image, and earlier this year Prime Minister Nguyen Tan Dung urged the airline to speed up the U.S. route plan, he asserted. VNA earned roughly USD 32 million on ticket sales of USD 890 million in 2005.

17. (SBU) As reported in reftel, VNA cannot begin the flights until the Federal Aviation Administration certifies that the safety standards employed by the Civil Aviation Authority of Vietnam (CAAV) reach the International Civil Aviation Organization (ICAO) standards. CAAV stated that the project to meet these safety standards will likely commence early in 2007 and take 12 months to accomplish.

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